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OCT 26 1995

Employer Identification Number: [REDACTED]
Key District: Southeast (Baltimore, MD)

Dear Applicant:

We have considered your application for recognition of exemption from federal income tax under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(3). Based on the information submitted, we have concluded that you do not qualify for exemption under that section. The basis for our conclusion is set forth below.

You were [REDACTED] to provide cost-effective, quality treatment and prevention services to ameliorate the effects of alcohol and other drugs of abuse and addiction and other mental health problems through a consortium of alcohol and other drug treatment and other mental health providers.

You will solicit agreements from state and local governments, Managed Care Organizations, Insurance companies, self insured corporations, associations of corporations and similar entities to provide alcohol and other drug treatment and prevention and other mental health treatment services on a fee for service or capitated basis.

Your membership is limited to alcohol and drug treatment and/or prevention organizations that are exempt from Federal income tax under section 501(c)(3) of the Code. Your operating funds have come from a \$[REDACTED] membership fee paid by each of your members.

Your membership are under a general agreement to provide the treatment you negotiate to provide. However, each provider will be required to sign an addendum to their agreement which specifies prices and other payor requirements of each individual payor contract. If the provider refuses to sign this addendum then that provider will not be part of that particular payor contract.

You will establish a 1-800 number for the entire state manned by personnel trained in managed care/utilization review.

If the contract with the payor is based on fee for service, your personnel will certify patient as eligible, authorize admission, length of stay and modality based on protocols agreed to between you and payor. If the contract with the payor is based on a capitated rate, your personnel will certify the patient as eligible but the individual provider would control admission, length of stay and modality.

Section 501(c)(3) reads, in part, as follows, "Corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes,***".

Section 502 reads, in part, as follows, "An organization operated for the primary purpose of carrying on a trade or business for profit shall not be exempt from taxation under section 501 on the ground that all of its profits are payable to one or more organizations exempt from taxation under section 501.***."

The Income tax regulations read as follows, "1.502-1 Feeder organizations.

(a) In the case of an organization operated for the primary purpose of carrying on a trade or business for profit, exemption is not allowed under section 501 on the ground that all the profits of such organization are payable to one or more organizations exempt from taxation under section 501. In determining the primary purpose of an organization, all the circumstances must be considered, including the size and extent of the trade or business and the size and extent of those activities of such organization which are specified in the applicable paragraph of section 501.

(b) If a subsidiary organization of a tax-exempt organization would itself be exempt on the ground that its activities are an integral part of the exempt activities of the parent organization, its exemption will not be lost because, as a matter of accounting between the two organizations, the subsidiary derives a profit from its dealings with its parent organization, for example, a subsidiary organization which is operated for the sole purpose of furnishing electric power used by its parent organization, a tax-exempt educational organization, in carrying on its educational activities. However, the subsidiary organization is not exempt from tax if it is operated for the primary purpose of carrying on a trade or business which would be an unrelated trade or business (that is, unrelated to exempt activities) if regularly carried on by the

parent organization. For example, if a subsidiary organization is operated primarily for the purpose of furnishing electric power to consumers other than its parent organization (and the parent's tax-exempt subsidiary organizations), it is not exempt since such business would be an unrelated trade or business if regularly carried on by the parent organization. Similarly, if the organization is owned by several unrelated exempt organizations, and is operated for the purpose of furnishing electric power to each of them, it is not exempt since such business would be an unrelated trade or business if regularly carried on by any one of the tax-exempt organizations. For purposes of this paragraph, organizations are related only if they consist of:

- (1) A parent organization and one or more of its subsidiary organizations; or
- (2) Subsidiary organizations having a common parent organization.

An exempt organization is not related to another exempt organization merely because they both engage in the same type of exempt activities."

You are controlled by several unrelated exempt organizations, and are operated for the purpose of soliciting agreements to provide alcohol and other drug treatment and prevention and other mental health treatment services through these exempt organizations. You are similar to the organization described in the feeder regulations that is owned by several unrelated exempt organizations for the purpose of furnishing electric power to each of them that is not exempt.

You are operated for the primary purpose of selling mental health coverage on behalf of unrelated exempt organizations, which is a trade or business, and are a feeder organization under section 502 of the Code. Therefore, you can not be exempt from Federal income tax under section 501.

Accordingly, you do not qualify for exemption as an organization described in section 501(c)(3) of the Code and you must file federal income tax returns.

Contributions to you are not deductible under section 170 of the Code.

You have the right to protest this ruling if you believe it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This

statement, signed by one of your officers, must be submitted within 30 days from the date of this letter. You also have a right to a conference in this office after your statement is submitted. You must request the conference, if you want one, when you file your protest statement. If you are to be represented by someone who is not one of your officers, that person will need to file a proper power of attorney and otherwise qualify under our Conference and Practices Requirements.

If you do not protest this ruling in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies. Section 7428(b)(2) of the Code provides, in part, that a declaratory judgment or decree under this section shall not be issued in any proceeding unless the Tax Court, the United States Court of Federal Claims, or the District Court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service.

If we do not hear from you within 30 days, this ruling will become final and copies will be forwarded to your key district office. Thereafter, any questions about your federal income tax status should be addressed to that office. The appropriate State Officials will be notified of this action in accordance with Code section 6104(c).

When sending additional letters to us with respect to this case, you will expedite their receipt by using the following address:

Internal Revenue Service
Attn: CP:E:EO:T-5, room 6539
1111 Constitution Ave, N.W.
Washington, D.C. 20224

[REDACTED]

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

(signed) [REDACTED]

[REDACTED]
Chief, Exempt Organizations
Technical Branch 5

cc: Southeast Key District

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